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WORLD COTTON PROSPECTS

Summary

Domestic cotton prices were strong during June and rose sharply in the first 10 days of July. The average for the month of June was 11.96 cents, compared with 11.56 in May and 11.97 in June 1935. The highest daily price so far this season was 13.42 cents on July 10. Prices receded somewhat from this high point, and averaged 13.08 cents for the week ended July 18. The high level of world consumption of American cotton compared with last year, the small supply of cotton in private hands, the reduction in stocks of government financed cotton, and the belief of the trade that the coming crop probably will show only a moderate increase over the 1935-36 crop are factors which have tended to strengthen prices.

The price of American cotton continued to be high relative to foreign growths at Liverpool during May and June. The price of southern Brazilian cotton was especially weak relative to American.

The condition of the domestic cotton textile industry has improved during the last 2 months. Mill consumption in June amounted to 556,000 bales compared with 384,000 bales in June last year. European mill activity is generally on a fairly high level, but conditions vary considerably from country to country. A vigorous demand from the home market has resulted in maintaining the relatively active mill conditions and high level of cotton imports and consumption in the United Kingdom. On the other hand, labor troubles in France and Belgium, restrictions on imports of cotton in Germany and Italy, and the loss of export markets by Italy and the central European countries are hampering mill activity and cotton consumption on the Continent.

Yarn production and cloth exports are at high levels in Japan. Recently imports and mill takings of Indian and Sundry cottons, especially Brazilian, have tended to increase relative to American. In China apparently a strong effort is being made to consume Chinese cotton and draw on stocks in anticipation of the arrival of the new Chinese crop. Imports and arrivals at Shanghai of American cotton so far this season have generally declined more than other foreign cottons as compared with last year.

Exports of American cotton in June were 287,000 bales compared with 345,000 bales in June last year.

The Crop Reporting Board reports an area of cotton in cultivation in the United States on July 1, 1936 of 30,621,000 acres, an increase of 9.8 percent over the area in cultivation on July 1 last season.

The first official estimate of the 1935-36 crop in Argentina is for a crop of 354,000 bales, an increase of about 50,000 bales over 1934-35 production. Present indications are for a 1936-37 Chinese crop of about 3,250,000 bales, an increase of 25 percent over 1935-36.

Prices

The price of Middling spot cotton at the 10 markets was strong during June, and was very strong during the first 10 days of July. Prices advanced from an average of 11.73 and 11.76 cents for the weeks ended June 6 and 13, respectively, to an average of 13.01 cents for the week ended July 11. The highest daily price so far this season was 13.42 cents on July 10. The average for the month of June was 11.96 cents, compared with 11.56 in May and 11.97 in June 1935. The continued high level of world consumption of American cotton relative to last year, the comparatively small supply of cotton in private hands, the reduction in stocks of government-financed cotton, and the belief held by the trade that the coming crop probably will show only a moderate increase over the crop of this last season have been important price-strengthening factors. From the high on July 10 prices have receded somewhat but averaged 13.08 cents for the week ended July 18. This is the highest weekly average price since the week ended September 8, 1934.

The prices of foreign cottons relative to American continued to be low during May and June. The ratio of three types of Indian to two types of American at Liverpool was 76.1 in May and 76.7 in June. The price of Indian cotton is now lower relative to American Middling than at any time since last August and September when the ratios were 76.1 and 76.5, respectively. Egyptian Uppers strengthened a little relative to American during May and June as compared with April, but with the exception of that 1 month were cheaper than at any time since November. The price of Brazilian Sao Paulo fair was 97.8 percent of American Middling in June, the lowest ratio to American since May 1935.

Stocks and Movements

The Commodity Credit Corporation announced at the beginning of the present month that it would permit borrowing growers to repossess additional cotton in the loan stock up to July 20 on the basis of 25 points less than the average price of Middling 7/8 inch cotton at the 10 markets, except that no cotton on which growers borrowed 12 cents would be released for less than 12.25 cents. It has been the belief of the trade that only a small amount of cotton would be released under this plan. This belief has been held because, with prices in country markets bearing the relation that they do to the average of the 10 central spot markets, the repossession basis of 25 points less than the 10-market average automatically restricts sales to cotton that is of relatively high value because of quality, location, or both. Such cotton for the most part was sold out of the loan stock in the course of the initial sales of about 1,000,000 bales. Furthermore, with the spot basis relatively high in terms of new crop futures and the movement of the new crop only a few weeks away, merchants and spinners would not be expected to accumulate cotton much beyond their immediate needs. However, with the rapidly rising prices which characterized the first part of July, actual releases of loan cotton may be in a larger volume than was first anticipated by the trade.

On July 17, requests for release of 1,270,000 bales of loan stock cotton had been accepted by the Commodity Credit Corporation. When all of this cotton is actually released the total stock of government-financed cotton will amount to about 3,250,000 bales. At the end of the week ended June 20 the holdings of the Producers' Pool had been reduced to 124,300 bales of futures and 157,093 bales of spots. The statement was made at that time that, in view of its small holdings, the Pool is no longer a market factor and that regular periodical statements on the subject of Pool holdings would be discontinued. Further sales of Pool cotton and any additional loan stock cotton authorized for release under the provisions applying from July 1 to 20 will reduce the total stock of government-financed cotton still further. Total holdings amounted to 5,088,000 bales on August 1 last year.

The total apparent supply of American cotton in the United States on July 1 was 6,345,000 bales, a reduction of 1,579,000 bales from the apparent supply of 7,924,000 on July 1 last season.

Exports

Exports of American cotton were 287,000 bales in June compared with 345,000 bales in June last year. Exports during the first 11 months of the present season were 5,806,000 bales compared with 4,519,000 bales in the same

11 months last year. June was the first month of the present season in which exports have not exceeded those of the corresponding month of last season. The persistent tendency for the price of American cotton to rise relative to prices of foreign cotton probably has been an important factor in the recent decline in exports from the United States. Other influences which are unfavorable to exports at the present time and in the immediate future are the refusal by Italy to allow the importation of cotton except when it is to be used to complete government contracts or to manufacture textiles for exports, a barter agreement between Germany and Brazil for the supply of 200,000 bales of cotton to Germany, and an increased interest in Brazilian cotton shown by Japan.

Exports of cotton from India were 333,700 bales in May compared with 373,000 bales in the same month last year. However, exports in the 10 months ended May 31 were 2,684,000 bales compared with 2,246,400 in the same period last year, an increase of nearly 20 percent. Exports from Egypt were 124,464 bales in May and 99,932 in June. Shipments during the corresponding months last season were 112,601 and 94,033 bales respectively. Exports in the 11 months ended June 30 totaled 1,603,000 bales, only a slight increase over exports of 1,571,400 bales in the same period last season, and somewhat below the record exports of 1933-34, but were nearly 16 percent above average exports for these 11 months in the 10 years ended 1932-33.

Exports of cotton from Brazil amounted to 53,109 bales in April and 52,481 in May compared with 39,405 and 35,873 bales in the corresponding months of last year. However, exports of 471,719 bales in the 10 months ended May 31 were only 78 percent of exports in the same 10 months of 1934-35. Other things being equal, this decrease in exports compared with last year would indicate that the prevailing estimates of a large increase in the Brazilian crop over last year may be in error. However, it is to be remembered that exports of cotton from southern Brazil in June and July are apt to be very heavy. Furthermore, cotton stocks in the country may be considerably larger than at the same time last season.

The Textile Situation

United States.- The domestic cotton textile industry has shown general improvement during the last 2 months. Mill sales of goods have been above current output, and prices have advanced with increases in the price of raw cotton. Since July the booking of orders has been especially heavy on print cloths and carded broadcloths, but, according to trade reports, the last 2 months as a whole have seen an improvement in the sale of heavy industrial fabrics, the demand for which was very severely reduced by the depression and which calls for large quantities of cotton.

The New York Cotton Exchange Service index of cotton manufacturing in this country shows textile activity to be running above the 1922-27 average. Mill consumption in June amounted to 556,000 bales compared with 384,000 bales last year, according to the Bureau of the Census. Consumption in the first 11 months of this season amounted to 5,737,000 bales, an increase of 15 percent over the consumption of 4,970,000 bales in the same period last year.

Europe 1/.-The European cotton textile situation during the month of June was considerably influenced by rising raw material quotations, with raw cotton buying by the mills assuming fairly favorable volume in several countries. United Kingdom importations and mill consumption were of liberal volume, but favorable domestic demand for cotton goods continued to be offset by the difficult export situation. In Germany, a certain revival in both spinner and weaver sales was reported for the month of June, but there was no improvement in the quality of raw cotton supplies. Sales of the French spinning and weaving mills continued fairly favorable during the first half of June, but were severely handicapped in the second half of the month by the general uncertainty incident to the strike, and by their natural reluctance to buy as well as to sell for any time ahead because of the difficulty of estimating increases in costs induced by the wage increases that have occurred. Production in the cotton textile industry in France during June was also affected, in the first half of the month, by the closing of a large number of textile plants.

In Austria and in general throughout central Europe, conditions continued to show the unfavorable influence of reduced yarn export business to Rumania. It is reported that certain shifts are taking place in the type of yarn production. The situation in Czechoslovakia was again a little better though still basically unsatisfactory. The increases in Czechoslovakian raw material takings during the past several months are not to be taken as an indication of genuinely improved mill activity, but rather as an expression of concern regarding further restriction of raw material imports. From Hungary it is reported that the Government is about to require an admixture of 10 percent of staple fiber to the raw cotton utilized by spinning mills.

United Kingdom.-Rising prices, large imports, a high level of mill consumption, and small stocks characterized the British raw cotton market situation during June. In the textile industry, favorable domestic demand for cotton manufactures was offset by the difficult export situation, although tariff reductions by India applicable to certain British cloths offered some encouragement to British exporters.

Domestic demand for cotton manufactures in the United Kingdom continued mostly good, the home trade in England was helped by warmer weather, and retail sales showed a rather active demand as compared with a year ago.

Export demand continued fundamentally poor despite signs of recovery. The rising tendency of raw cotton prices has resulted in broader inquiry for yarn and cloth, and tariff reductions have also encouraged trade with Canada and Australia. Exports of cotton piece goods during May, however, were unusually small, especially bleached, printed and piece-dyed goods. During the 6 months January through May, the quantity of cotton piece goods exported was 7 percent less than a year ago, and 15 percent less than 3 years ago. On the other hand, there has been a slight increase in the less important exports of cotton yarns.

Abnormally large importations of short staple cotton were made during May, especially from India. Fairly normal importations were made in medium and long staple cottons. The importation of raw cotton as a whole during

1/ Prepared largely from the report of Lloyd V. Steere, United States Agricultural Attache at Berlin, under date of July 8, 1936.

June was rather large. The same was true of deliveries to British mills, the influence of the rising tendency of raw cotton prices being quite evident. Trade returns for the 4 weeks ended June 26 showed a total importation of 241,000 bales of raw cotton, compared with only 187,000 bales a year ago, 196,000 bales 2 years ago, and 232,000 bales 3 years ago. American cotton, in June 1936, represented 99,000 bales, or nearly 40 percent of the total, which was a higher percentage than in either of the 2 preceding Junes. Deliveries to British mills during the 4 weeks ended June 26 amounted to 210,000 bales, compared with 197,000 bales a year ago, 206, 000 bales 2 years ago, and 185,000 bales 3 years ago. In each period, except last year, about 25,000 bales per week were of American origin.

Germany.-Reports from German cotton textile quarters indicate a recent slight improvement in the sales of cotton yarn and cotton cloth, a development attributable to increased home demand. The improvement in the demand for cotton yarns and cotton cloth seems to have been partially influenced by rising raw material prices, but there was said to have been a noticeable increase in retail sales of textiles as a result of good summer holiday demand. The export situation is reported to be stagnant.

Raw material buying by the German cotton industry has remained within the limits of the currency and buying restrictions. Supplies may still be considered as adequate in quantity, but much below normal in quality. Lower Rhine weaving mills have been complaining of a lack of pure cotton yarns.

German cotton imports continue to run below the spring and early summer takings last year, with reduced imports from Brazil a major factor. Imports from the United States, on the other hand, continue above the much reduced figures of early 1935. (See table below)

German raw cotton imports, 1934-35 and 1935-36

Date and region	1934-35	1935-36
	Bales of 478 pounds	Bales of 478 pounds
Aug. 1 - May 31		
Total-	944,000	1,200,000
From United States ...	309,000	404,000
From Brazil	185,000	219,000
Total		
Mar.	106,000	738,000
Apr.	133,000	110,000
May	109,000	84,000
From United States		
Mar.	25,000	28,000
Apr.	30,000	40,000
May	23,000	26,000
From Brazil		
Mar.	22,000	4,000
Apr.	50,000	7,000
May	30,000	6,000

It is likely that exports of Brazilian cotton to Germany will increase in the next year, although probably imports from Brazil will not be so large as in the year 1934-35. The United States has imposed countervailing duties upon certain German goods imported into the United States as a result of the granting of bounties or other forms of special aid to their exportation by Germany. It is believed in many quarters, both American and German, that the restriction of the entry of these German goods into the United States will materially decrease German purchases of American cotton. This is believed to be especially apt to be true because to a considerable degree the foreign exchange arising from the sale of the goods on which the new duties have been placed was specifically allocated to the payment for shipments of cotton under contracts with shippers in the United States. On the other hand, Germany and Brazil are reported to have just recently concluded a new agreement for the exchange of German manufactures for Brazilian coffee, cotton, and other agricultural products. The agreement provides for the shipment of approximately 190,000 bales of cotton to Germany during the next year. It is not known whether shipments will be limited to about 16,000 bales per month, but total exports for the year under the plan cannot exceed 190,000 bales.

Raw cotton stocks at Bremen continue on low levels, July 6, 1936 figures showing 202,000 bales against 186,000 bales the previous year and 463,000 bales 2 years ago. These figures show a rise as compared with last year as well as against the 195,000 bales on hand June 8, but there seems to be no particular significance in the change.

A recent ordinance of the Supervisory Office for Bast Fiber (No. 15) prohibits, effective July 15, 1936, the manufacture of pure jute yarns and pure jute fabrics. The ordinance prescribes that flax and hemp fibre must be mixed with jute yarns to an extent of at least 10 percent of the final weight; in the case of textilite yarns and fabrics, paper must be mixed to the extent of at least 60 percent of the final weight; with certain jute fabrics paper yarns must be mixed to the extent of from 25 to 33 percent, and other jute fabrics must contain paper, flax and hemp yarns and fibres of varying percentages. Exemptions from these regulations may be made only with the consent of the Minister for Economic Affairs.

Czechoslovakia.- The slight betterment recently experienced in the Czech cotton textile industry seems to have been maintained, but the basic situation remains very unsatisfactory, largely because of very limited export business. The textile industry is increasingly aware of the necessity of a solution of the export problem for the industry as a whole, either through premiums and special agreements, or through further devaluation.

The recent increases in the importation of raw cotton into Czechoslovakia should not be attributed to a much increased mill consumption, but rather to a tendency on the part of the industry to acquire raw material stocks in anticipation of further governmental measures toward import restriction. This situation has not escaped the attention of the National Bank, and it is reported that the Bank will resort to some sort of currency and purchase contingents to be allotted to individual firms.

Austria.- The Austrian textile situation has been considerably influenced by the severe decline in export possibilities for cotton yarn in Rumania, and it is now reported that the reduction in such sales will lead to a reorganization of certain mills, involving a shift toward the production of more fine count cotton yarn, which previously has largely been imported from Czechoslovakia, Great Britain and Switzerland. Cotton weaving mills also reported a recent decline in business, but this is considered only temporary.

France.- Cotton mill sales and cotton mill production in France were severely hampered during June by the widespread strike movement and by the resultant wage increases and uncertainty regarding future costs in the industry. Although sales of cotton yarn and cotton cloth were active in the first half of June, they dropped to insignificant figures in the second half of the month because of the general reluctance of buyers to commit themselves, and of sellers to make contracts for any period ahead. A large number of the mills were completely shut down by the middle of June, but operations were resumed in the latter half of the month.

As a result of the recent wage increases, the introduction of paid leave, and the reduction of working hours, the textile industry is threatened with a heavy increase in costs, which it may be difficult to compensate by increased selling prices. As a result, the French cotton textile outlook is somewhat clouded, and some observers think that curtailment of operations as a result of unfavorable price-cost relations is in prospect for the fall. Much will depend, however, on the manner in which the more fundamental general economic problems in France are attacked by the authorities, and on whether

Production and sales of cotton cloth in France, 1913-35

Year	Production	Sales			Sales in percent of total		
		Domestic	Colonial	Foreign	Domestic	Colonial	Foreign
	Million pounds	Million pounds	Million pounds	Million pounds	Percent	Percent	Percent
1913 1/	410.5	297.6	61.7	60.2	72.0	14.0	14.0
1924	316.8	175.0	49.2	98.8	53.3	15.5	31.2
1925	347.4	232.4	63.5	58.6	64.8	18.3	16.9
1926	382.7	253.1	78.7	56.9	64.6	20.6	14.8
1927	382.3	212.3	84.2	88.6	54.8	22.0	23.2
1928	391.5	233.9	79.8	81.6	58.8	20.4	20.8
1929	385.1	247.8	90.6	57.5	64.4	22.0	13.6
1930	391.3	254.2	75.0	43.2	71.5	18.0	10.5
1931	322.8	242.7	63.9	29.8	70.6	20.0	9.4
1932	271.2	214.7	64.6	20.7	72.2	22.2	5.6
1933	336.9	246.5	78.0	16.1	73.7	22.9	3.4
1934	293.2	194.0	76.9	10.8	69.4	28.0	2.6
1935	---	---	78.7	7.1	69.9	28.6	1.5

Compiled from the "Frankfurter Zeitung", July 5, 1936.
1/ Excluding Alsace-Lorraine.

a successful anti-crisis policy can be devised under the particular circumstances prevailing in France. There is no doubt that the cotton industry would profit greatly from a strengthening of general purchasing power such as the Government aims at.

A recent review of the Allgemeine Elsassische Bank-Gesellschaft 3/ emphasizes the growing importance of the French colonies for the exportation of cotton fabrics from France in post-war years. Without that market the French cotton industry might well have collapsed. From 1913 to 1935, the percentage of cotton cloth exports going to the colonies rose from 14 to 28.6 percent of total sales, while the share of exports to foreign countries, which had risen to 31.2 percent in 1924, declined from 14 percent in 1913 to 1.5 percent in 1935. The figures for 1913 do not include Alsace-Lorraine.

Italy.--According to a recent ordinance of the Italian Government, exports of wines, vermouth, and silk fabrics can now be made in compensation against imports of raw cotton, cotton waste and jute. It is hoped that this will facilitate the obtaining of increased supplies of these raw materials.

Hungary.-- Rumors indicate that the Hungarian authorities are about to issue an ordinance which will oblige cotton spinners to mix 10 percent of staple fiber with the raw cotton manufactured. It is indicated that the Hungarian mills will use both the Italian Snia Fiocco and German Vistra.

Japan 4/.--Yarn production in Japan was 303,968 bales of 400 pounds in May and 308,524 bales in June. Yarn output in both months was slightly above production in the same 2 months last year, and was the highest production on record for these 2 months. These were the first months during the present season that yarn production was not below the record high level of last year.

Cotton imports during the month of May were large, amounting to 364,820 bales against 214,146 bales in May of last season. Imports of Indian cotton were 212,752 bales, an increase of 76 percent over imports of 120,909 in the same month last year. Imports of American were 108,225 bales, an increase of 46 percent over last May's imports of 74,104 bales. Imports of all growths of cotton from September to May inclusive of the present season were 2,779,000 bales compared with 2,675,224 bales during the same period last season. Imports of Indian cotton during these same months were only slightly larger than last season, 1,114,000 bales against 1,054,000 bales. Imports of American cotton were a little below last year, 1,331,500 bales against 1,363,660.

Mill takings of all growths of cotton of 305,228 bales in May were 11 percent less than a year ago, with a slight increase in the takings of Indian and a sharp decrease in takings of American compared with May of last year. On the other hand, mill takings of all cotton in the period September to May were only slightly less than during the same period last year, while takings of Indian were a little less and takings of American a little more than last season. It is believed that the increased imports and mill takings of Indian cotton relative to American in May were due to the

3/ As per "Frankfurter Zeitung", July 5, 1936.
4/ Prepared largely from a cable from Agricultural Commissioner O. L. Dawson at Shanghai, under date of July 13, 1936.

tendency for the price of American cotton to increase relative to Indian in recent months. Imports of Chinese, Brazilian, and Peruvian cotton have been running above last year.

Cloth exports of 249,392,000 square yards in May were high as compared with recent months, but it would seem to be somewhat doubtful whether the present high level of cloth imports can be fully maintained in view of the continual increase in barriers against Japanese textiles erected by importing countries.

China 5/.-The supply of old crop cotton at interior points is reported to be very small. The major portion of the spinning industry has sufficient stocks to last until the new crop begins to move, but some mills are expected to feel a shortage of cotton before new crop arrivals begin.

During June, mill demand for Chinese cotton showed a slight increase probably because of the anticipation of some shortage before the arrival of new crop cotton. There has also been a slight improvement in the demand for yarn, although mill activity has tended to decline somewhat.

The shortage of Chinese cotton has caused its price to rise relative to foreign growths, especially Indian, and there has been some buying of Indian cotton. In general, however, the tendency is to meet mill requirements to as large a degree as possible by an increased use of Chinese cotton and by heavy draft on stocks in anticipation that the new crop will provide an increased supply of native cotton.

Shanghai arrivals from October to June this season were 1,090,000 bales compared with 835,300 in the same period last year. Arrivals of Chinese cotton amounted to 962,500 bales, an increase of 57 percent over the same period last season. Arrivals of American were 39,868 bales or a little more than a third of last year. Relatively smaller declines were shown in arrivals of Indian and Egyptian cotton.

Imports of American cotton of 45,754 bales from October to May amounted to less than half of imports during the same months last season. Imports of Indian cotton increased slightly while those of Egyptian declined.

Production, Acreage, and Crop Conditions

United States.-The Crop Reporting Board reports an area of cotton in cultivation on July 1, 1936 of 30,621,000 acres compared with 27,888,000 acres in cultivation on July 1 last season, an increase of 9.8 percent. Among the major producing States, Texas showed the largest increase, the area planted to cotton increasing from 10,964,000 to 12,280,000 acres or 12 percent. Generally speaking, the smallest percentage increases in acreage took place in the Atlantic Seaboard States.

5/ Prepared largely from a cable from Agricultural Commissioner O. L. Dawson at Shanghai under date of July 14, 1936.

Assuming the 10-year average abandonment of 2.3 percent of planted acreage, the acreage in cultivation on July 1 of 30,621,000 acres, with a yield per acre equal to the highest for the last 10 years, would result in a crop of about 13,626,000 bales of 500 pounds gross weight. With a yield equal to the lowest in the last 10 years the crop would amount to 10,064,000 bales, and with 1931-35 average yields to 12,242,000 bales.

Trade reports indicate that cotton crop conditions are fairly favorable. The severe drought conditions which existed in the northeastern part of the Belt at this time last month have been broken for the most part by rains during the last 3 or 4 weeks.

China.- The present estimate of the 1936-37 Chinese cotton crop is about 3,250,000 bales. Harvesting of the crop is now beginning and will continue until November. The present estimate of a crop of 3,250,000 represents an increase of 25 percent over the 1935-36 crop of 2,600,000 bales. There has been an increase in acreage of about 15 percent in the Yangtze Valley and 35 percent in North China.

Argentina.- The first official estimate of the Argentine Cotton Board is for a production of 353,751 bales from an area of 783,354 acres. This compares with a final estimate of an output of 295,352 bales and an area of 707,069 acres for last year.

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